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Regional Development Agencies as Network Organisations

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Abstract [1]

The research question in this paper is to what extent the New Public Management reforms in Norway can explain the weak political power position of regional development agencies as political actors in the regional development. In the regional planning and development work, we often talk about a shift in regional policy-making and planning characterised by a new process of governing. A regional *governance* structure has been added to the regional *government* structure, but in practice the governance structure seems to live in the shadow of the government structure, and the regional planning and development agencies as part of the governance structure are often rather weak political institutions. In this paper I analyse their weak power position by using the term network organisation where different actors from public, private and voluntary sectors participate.

Government versus governance regimes in regional development

In the regional planning and development *governance* structure has now been added to the *government* structure. Government is used to refer to the formal institutional structure and location of authoritative decision-making in the modern state, like ministries, agencies, municipalities and counties. The concept of governance, in contrast, is wider and directs attention to the distribution of power both internally and externally to the state. The focus is on the interdependence of governmental and non-governmental forces in meeting economic and social challenges. Governance is about governmental and non-governmental organisations working together. Its concern is how the challenge of collective action is met, and the issues and tensions associated with this switch in the pattern of governing (Stoker 1997:10).

The concept of governance has gained widespread currency across many of the social sciences, and many disciplines have struggled to analyse the broad set of changes in the relationship between state, market and civil society - the conceptual trinity which has tended to dominate mainstream analysis of modern societies. In the concept of governance, actors and institutions attempt to establish a capacity to act by blending their resources, skills and purposes into a viable and sustainable partnership. This co-ordination process has been characterised rather neatly as "managing a-nobody-in-charge world" (Stoker 1997). Some authors warn that the growing obsession with governance mechanisms as a solution to *market failure* or *state failure* should not lead us to neglect the possibility of governance failure. We

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must avoid seeing governance as necessarily being a more efficient solution to problems of economic or political co-ordination than markets or states. We must ask critical questions about those institutions and networks that emerge in their place (Jessop 1997).

The hybrid character of New Public Management – centralisation and devolution

The label New Public Management (NPM) was first used by Hood (1991) to describe an administrative reform wave. The NPM as a model for public sector reforms have spread rapidly into many countries. However, the effects of NPM are often promised or expected but seldom much documented (Pollitt and Bouckaert 2000). The main hypothesis in the NPM reforms is that more market, more management and greater autonomy will produce more efficiency without having negative side-effects on other public-sector values. But tensions arise from a hybrid character of NPM. The tensions result from the contradiction between the *centralising tendencies inherent in contractualism* (from economic organisation theory) and the *devolutionary tendencies of managerialism* (from management theory).

- The paradigm in economic organisation theory is that the power of political leaders must be reinforced against the bureaucracy. This implies centralisation, concentration of political power, co-ordination and control via contractual arrangements.
- The paradigm of management theory is that the primacy of managerial principles in the bureaucracy must be re-established. However, enhancing the capacity of managers to take actions requires attention to decentralisation, delegation and devolution, which, obviously must come in conflict with the political control end centralisation prescribed by the economic organisation theory (Christensen and Lægreid 2004:13).

An important consequence from these conflicting processes, are increased vertically and horizontally specialisation and fragmentation. Authority is transferred downwards in the hierarchy, either between existing organisations or to new governmental organisations, both inside and outside the governmental administrative organisation. The idea is to separate politics form administrational and commercial functions, and to make public sector more like private sector. This vertical specialisation has often gone hand in hand with the horizontal specialisation. Here, functions that were traditionally organised together, such as policy advice, regulative tasks, ownership functions, control functions, and purchaser/provider functions, have now been separated into distinct units. Through this vertical and horizontal specialisation, the NPM-modernised state has become more *fragmented* than the traditional integrated state model (Olsen 1988, Christensen and Lægreid 2004:15).

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From rationality-bounded state model to supermarket state model

The New Public Management inspired public sector reforms have transformed the national state from mainly a *rationality-bounded state model* based on the parliamentary chain of governing, to a more fragmented and *supermarket state model* with the national state as a service provider. This implies a change in fundamental values from democracy and political-administrative control given by the political leaders through the election channel, to an emphasis on efficiency and quality, the people as consumers, users and clients. The supermarket state represent a one-dimensional economical view of the public sector, while the traditional state is more occupied with the complex balancing of a variety of legitimating considerations.

Christensen and Lægreid (2003:308) remind us that the rationality-bounded state model with trusted elected politicians with their mandate from the people, and its administrative staff with little freedom and accountability for results, but much responsibility for following rules, has been a successful and durable model of public administration. In the supermarket state model this ministerial responsibility is challenged by a *contract-based* accountability which is needed because the logic is a fundamental mistrust. They write this might make control more visible; but whether this is a better form of control than the *trust-based* control mechanism in the rational-bounded state is an open question.

Normally socialist and social democratic parties have defended the sovereign state model, while conservative and liberal parties have supported the supermarket state model (Nagel 1997). However, in most countries the NPM reforms have synthesised and adopted a blend of the two models. The countries have tried to give managers and their subordinates more autonomy and to strengthen political control through contracts, monitoring and incentive systems at the same time (Christensen and Lægreid 2003). But, reduced political control is the most significant consequence from the New Public Management reform, (Pollitt and Bouckaert 2000, Christensen 2004). There seem to be an anti-political trend that potentially can undermine political control, because the devolution has increased the distance between the political leadership and the subordinate units and lower levels of management. There is a tendency to define political involvement in public enterprises as "inappropriate" interference in business matters (Christensen and Lægreid 2002). In addition, the monitoring system is so fare more developed to handle *output* than *outcome* because the lack of knowledge about the causalities between the public sector activities and the results on the society is enormous. I addition every activity and every effect that can be measured, tend to get most focus. As a

consequence, organisations within public sector have become more instrumental, out-put-oriented at the same time as they are expected to take part in partnerships of regional planning and development within the governance structure.

Public sector reforms and modernisation in Norway

Similar to many other countries public sector in Norway is undergoing New Public Management inspired reforms, but so fare Norway has not had a fundamental discussion on the role of the government to evaluate what the public sector is best suited to take care of, and what is best performed by private players. The lack of an overall vision has led to an incremental reform activity, and to sector-initiated and sector-oriented reforms. We are faced with a structural pluralism more than uniformity and universality. Administration policy has been largely a by-product of processes and actions in many institutional arenas, rather than the result of a homogenous and united strategy. The style of the reforms has been oriented towards compromise and this has given incremental results (Stromsnes 1999). On an international scale Norway can be presented as a reluctant reformer and slow learner (Olsen 1996).

The management by objectives and results (MBOR) concept and activity planning became central in the Norwegian public sector reforms. But the implementation of the concept has constantly been twisted between the need for freedom and control. The different ministries, agencies and offices in public sector have got some freedom to create their own policies within the management-by-objectives concept, but at the same time the concept has become very oriented towards details about ends, means, effects and results. The system has become very complex and control oriented with a strong demand for monitoring of output and outcome. The system now produces at lot of detailed reports from the bottom to the top, but the system does not have the capacity to handle all this information in an adequate way.

Demands for better accountability and improved performance have resulted in administrative reforms that emphasise new leadership and leadership development models. The old and unreformed public sector had a "grow your own leaders" philosophy, and the new and reformed public sector tends to operate under the more private sector philosophy of "by or hire" a leader with the adequate skills to make the organisation perform better. By doing this we tend to evaluate public and private sector leaders much the same way, i.e. by their ability to lead their organisations to perform. But it is commonly recognised that public sector has a fare more complex and dynamic value and goal structure, than private sector. There is now a

growing awareness that something is missing between the existing public service culture and the public interests. There seem to be a lack of dedication to fundamental values of public services such as separated powers, democracy, transparency, accountability and efficiency. If these values shall guide the public sector actions, they must be embedded in the culture.

The first generation of NPM public reforms brought new thinking and processes into public sector, but much of them in the form of management borrowed from private sector. In this process the well-established terms public sector and public administration became discredited, and private sector was put forward as an example to follow. The term public sector became very much associated with an inefficient rule-bound system in contrast to the efficient private sector. Hence, the reforms focused on transforming the *input* managed rule-bund system to a more *output* and even *outcome* managed performance system. Management-by-objectives concepts and activity planning became central in the reforms. According to OECD (2003) this approach with emphasis on formal system of specification of ends and measurement of output and outcome failed decades ago, not only in private sector but also in the public sector in the command economies, because in could not address complex problems and because there are limits on how much information human beings can (or do) take into account when they make decisions. In addition, there is no area of activity more complex than the policy domain of government, and it has for a long time been recognised that public service production is controlled more by values and culture than by rules, a situation that is likely to continue despite progress in performance measurement and contracts.

From the above presentation of NPM we know the hybrid character of the public sector reform. This hybrid character creates a tension between contractualism and managerialism with the result that public sector organisations become more closed to their context, and more instrumental in their behaviour. The public sector organisations get more *closed* because the administrative staff act on behave of the politicians based on contracts, and for the administrative staff it becomes rational to fulfil the contract as well as possible. If the staff do not reach the ends in the contracts, or do not implement the actions in the contract, the politicians have the power to punish them when the new contracts are to be set up. From this point of view, each public organisation will tend to regard everything that *is not* included in the contract, as less important tasks than what *is* included. In sum the public organisations act in an environment that expects them to play a manifold role, but the logic of the structural forces is to concentrate on the mandate they have got from the politicians. An example: If participating in network organisations is not an issue in the contract, this work is not given

priority.

The public sector organisations get more *instrumental* because the administrative leaders have to show results in the same way as private company managers. When the slogan "let the managers manage" has become accepted in public sector, it paves the way for a more instrumental leadership where the organisation can be regarded as machines in the hand of the leaders. However, when an organisation becomes a machine, the structural force within their organisation will invite each member of the organisation to act strategically in order to maximise their interests. What is in it for me, becomes a very commonly asked question for instance when an leaders and organisations are about to enter regional development agencies.

Regional development agencies as network organisations in the supermarket state

There are three ideas behind regional development agencies (Talbot 2004):

1. Structural disaggregation and/or the creation of 'task specific' organisations.
2. Performance 'contracting' – some form of performance target setting, monitoring and reporting.
3. Deregulation (or more properly reregulation) of controls over personnel, finance and other management matters.

Regional development agencies normally are task specific organisations with a kind of contract with the national state, and with some political tools to implement their plans. In addition, they normally consist of different types of organisations from public, private and voluntary sector, and from different levels of government. In this context, I shall use the term *network organisations* as a collective term for partnership in regional planning and development, which covers multi-levels and multi-sectors co-operations, i.e. governing bodies that are comprised of actors from the vertical and the horizontal power structures.

The term network organisations cover a collaboration of organisations of various types (Strand 2001:267). Common to all of them is the fact that the collaborating organisations can have a large degree of independence, and that they to a great extent can disappear from the network, either of their own free will or because the partners choose to exclude them. Network organisations are therefore complex and dissolvable. They are *complex* because they are made up of organisations that are quite different, but which each contributes to the network with their own speciality. They are *dissolvable* in the sense that participating organisations can be replaced and the network itself can be completely disbanded its strength.

Network organisations are often regarded as more innovative and able to handle uncertainty than bureaucratic organisations, but this aught to be handled more as a hypothesis than an axiomatic fact (Olsen 2004). However, network organisations are normally loosely coupled organisations, and therefore obtain the power and legitimacy the different collaborating organisations wants to give them, and the power the context can accept (Strand 2001).

The legitimacy of network organisations is to all extent and purpose dependent on the productivity and efficiency they can demonstrate, and to what degree the actual process justifies their existence. The network can increase its power if the network succeeds in creating common view on their situation and context, common visions, strategies, tactics and actions (Amdam 2005). Hence, the legitimacy of such an organisation will come both from inside and outside. The legitimacy from within will depend on how much power the participating organisations are willing to transfer to the network, at that is normally limited of what is in the interests of the participant at any time. In understanding the acceptance and legitimacy from outside, it is important to stress the fact that network organisations will be involved in a continual competition with other organisations, and that they will challenge the power that lies in the vertical and horizontal power structures in society. It is therefore vital for the legitimacy of network organisations that the participating organisations act in the networks with powers of attorney that are well supported in their organisations.

Participating in network organisations may be motivated on self-interest or on the basis of mutual usefulness and common values, and the collaboration is normally formalised through agreements and transaction control mechanisms between the participants. In theory the control mechanism in network organisations can be based on three patterns (Langflied-Smith and Smith 2003:286):

1. *The market based* control mechanism suites transactions characterised by high task programmability high measurability of output, low asset specificity and high task repetition. Many suppliers will compete, and detailed contracts are not needed because the market mechanism will provide an efficient and effective output.

2. *The bureaucracy based* control mechanism suites transactions that have high task programmability, high output measurability, moderate asset specificity and low to medium repetitiveness. Comprehensive selection criteria are set up and formal bidding is used to select a partner. Detailed contracts with detailed rules of behaviour and rigid performance targets are used to monitor the activity.

3. *Trust based pattern* control mechanism is characterised by low levels of task programmability, low levels of output measurability, high asset specificity and low repetitiveness. The initial selection of partners is based on perceptions of trust which arise through friendship, former contractual relationship and reputation. The contracts are broad frameworks, which ten to develop further in detail over time.

Regional development agencies as network organisations operate initially in environments which are typical for trust-based transactions. The context is complex and changing, and the performance has low repetitiveness. The contracts tend to grow out of the need for formalisation of the co-operations. However, problems can arise when the participating organisations, which are most familiar with market based (private sector) and bureaucratic based (public sector) transaction control mechanism, shall form powerful network organisations based on trust. These problems have potentially arisen with the NPM reforms, because the reforms seem to have transformed public sector organisations away from trust-based and relationships to more mistrust based transactions.

Regional development agencies created as network organisations within the governance structure can be regarded as collective goods that to some extent are based on altruism form public, private and voluntary organisations. In this way the governance structure that are needed in regional development, becomes dependent on the different government structure organisations, and the different public and private sector organisations, and their way of acting. This line of thought is in sociology known as *structure-functionalism*, and refers to the fact that structures look after certain functions, and that the structures can be understood on the basis of the function they have in the system (Strand 2001:230).

Based on Parsons' (1951 and 1971) now classic works on the four partial functions in systems, many contributions have appeared later that discuss the same topic. One of them that have been given a great deal of attention is Adizes (1980) corresponding four-part division in *Administration, Production, Integration and Enterprise* whose initials form the acronym PAIE. The two classifications are not similar in every respect, but the sum total expresses much the same. That is, that all organisations embrace these four elements, but that the emphasis varies within key characteristics between the surroundings and the organisation, see table 1.

Table 1: Organisational functions and organisational forms

Based on Adizes 1980 Strand (2001)

	Closed system view Most attention internally Little variation Homogeneous external environment	Open system view Most attention externally Large variety Heterogeneous external environment
Instrumental rationality Large degree of formalisation Well understood causality Stable environment	**Administration** **as dominating PAIE-function** **Machine bureaucracy**	**Production** **as dominating PAIE-function** **Professional bureaucracy**
Communicative rationality Small degree of formalisation Poorly understood causality Turbulent environment	**Integration** **as dominating PAIE-function** **Workshop organisation**	**Entrepreneurship** **as dominating PAIE-function** **Task-organisation**

The 'A' which stands for administration in Adizes model, is concretised as planning, organising, creating systems, co-ordinating and controlling. In Strand's (2001) view these are functions that are especially common and important in *bureaucracies* (machine organisations). These tend to be oriented towards order, system and structure.

According to Adizes goal attainment and production are covered under 'P', which are concretised as obtaining results by setting goals and producing in order to achieve these. This production function is particularly apparent and important in what are known as *professional organisations*, which are characterised as being oriented towards production and problem-solution and which are based on theories of rational choice.

Furthermore, Adizes covers communicating and preserving the organisation's values and cultural identity under the 'I', meaning Integration, which is concretised as the ability to get individuals to pull together, to create a team and to emphasise job satisfaction and interaction. According to Strand (2001), these functions are most dominant and important in *workshop organisations*. These tend to be oriented towards human resources and motivation and leans especially heavily on human relation theory and socio-technical theory.

The 'E' for entrepreneurship in the acronym PAIE, Adizes concretises as the ability to create

and interpret change, find new solutions to new problems, and to be creative and willing to take risks. Strand (2001) believes that this enterprise function is particularly apparent and important in *task organisations*. These are characterised by being oriented towards the threats from and the opportunities offered in the surroundings and builds on theories about open systems, dependency and choice of strategy.

In addition Strand (2001:267) draws attention to what he calls *network organisations*, by which he means networks of partners of various types, i.e. bureaucratic, professional, workshop and task organisations. Common to all network organisations are the fact that the partners can have a large degree of independence, and that a partner to a greater extent than a part of the four other organisations can disappear from the organisation, either of their own free will or because the other partners choose to exclude them. They are often composed of organisations that represent all the four above-mentioned forms, and it is just this balance between the P, A, I and E functions that can give these organisations their strength.

As I have argued so fare, the NPM reforms have to some extent succeeded to create a more unpredictable future for public sector, this have taken us towards a supermarket or minimum state and should logically have encourage the public sector organisations to act like *task organisations*. This seems to be a logical adaptation to the situation that has been created.

But the built-in inconsistency in NPM tends to make public sector organisations more like bureaucratic organisations with the consequence that they become more closed to the environment and more instrumental in their behaviour. More or less, public sector organisations have become *machine bureaucracies* dominated of a contractual behaviour within the government structure. The NPM reforms have empowered customers through free chooses of services, free managers from detailed political instructions, and strengthen political steering through defining the long-term goals for the public sector and asserting the outcome (Christensen and Lægreid 2003). However, these three tings are difficult to achieve simultaneously (Pollitt and Bouckaert 2000), and the consequence is a fragmentation of the national stats and an increased sector thinking and acting. One of the main reasons is that the politicians are not able to hold the public sector managers responsible for the outcome or the results of the policy implementation, only the output. This lack of outcome accountability gives the public sector organisations the possibility to act like machine bureaucracies rather than task organisations, and makes it extremely difficult to realise regional planning and development through governance and network organisations.

As the public sector organisations become more machine bureaucracy like, the ability and

willingness to participate in network organisations are reduced. Then the nearest solution should be more accountability, but then the problem is the lack of causality in production of public sector services. When there is no obvious logical relation between a public sector organisation activity or lack of activity and the outcome to the society, you can not hold the organisations and their leaders responsible.

In the Norwegian political power structure the regional territorial and horizontal power is weak compared to the sectoral and vertical power. But I do not think this is a particular problem for Norway. Jessop (1997) writes that governance still seems to exist in the shadow of governance. As I have argued in this paper it can be said that the situation in general is a consequence of the NPM reform process in our societies. In this process instrumental rationality and top down policy seem to dominate over the communicative rationality and bottom up policy (Amdam 2002). The NPM reforms are in line with the general modernization of the society, and means to seek objective knowledge that can enforce more cost efficient productions in the government structure. The NPM reforms have made marked competition an end in itself. Other values as democracy, participation, equality etc. normally become more or less neglected. Thus, the NPM reforms make public and voluntary organisations become more like private sector organisations with a dominance of instrumental rationality and internal focus. The situation actually reduces the existing and potential power of regional development agencies, because the creation of these are very dependent on trust between the participants and willingness to support the production of common good and to act altruistic.

Conclusion

The NPM reforms have created a supermarket state, but rather than transforming public sector organisation to task organisations, the hybrid character of NPM seem to have fostered more machine bureaucracy like organisations. This is a logical mismatch that weakens the actual and potential power of the regional development agencies. As fare I can see, it is only through a regional planning and development process with a broad involvement, and a significant acceptance and support from the national government authorities, that the regional development agencies can obtain political power (Amdam 2005). But, I doubt that we will see powerful regional development agencies in Norway as long as NPM reforms dominate the public sector modernisation.

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